

# **SBA**

SOP 90 10 5

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## **Audit Program**

Office of the Inspector General

U.S. Small Business Administration



**SMALL BUSINESS ADMINISTRATION  
STANDARD OPERATING PROCEDURE  
National**

|                               |               |           |   |
|-------------------------------|---------------|-----------|---|
| SUBJECT:<br><br>Audit Program | S.O.P.        |           | F |
|                               | SECTION<br>90 | NO.<br>10 |   |

**INTRODUCTION**

1. Purpose. To establish procedures for carrying out audit responsibilities within SBA.
2. Personnel Concerned. All SBA employees.
3. SOPs Canceled. SOP 90 10 4 (dated October 28, 1988) and SOP 90 35 3 (dated October 28, 1988).
4. Originator. Auditing Division, Office of Inspector General.

|  |  |                           |
|--|--|---------------------------|
| AUTHORIZED BY:<br><br>Karen S. Lee<br>Acting Inspector General |  | EFFECTIVE DATE<br>1-16-97 |
|  |  | PAGE<br>1                 |

SBA Form 989 (5-90) Ref: SOP 00 23



## Table of Contents

| Paragraph   | Page |
|---|------|
| Chapter 1. General Overview of the Auditing Division                                    | 5    |
| 1. What Does the Auditing Division Do?  | 5    |
| 2. Under What Authority Does the Auditing Division Conduct Audits?                      | 5    |
| 3. Who is Involved in the Audit Process and What are Their Responsibilities?            | 5    |
| Chapter 2. What Kinds of Audits Does the Auditing Division Conduct?                     | 7    |
| 1. What are Internal Audits?  | 7    |
| 2. What are External Audits of Contracts, Grants, or Cooperative Agreements?            | 7    |
| 3. What are External Audits of Individuals or Entities Participating in an SBA Program? | 9    |
| Chapter 3. What is Involved in an Audit?  | 11   |
| 1. What are the Stages of an Audit?   | 11   |
| 2. What is an Audit Finding?  | 13   |
| 3. Who Receives Copies of the Audit Report?   | 13   |
| Chapter 4. What is My Involvement in the Audit Process?                                 | 15   |
| 1. When Should I Request an Audit?  | 15   |
| 2. How Do I Request an Audit?   | 15   |

- |  |    |
|--|----|
| 3. What Contact Does the Auditor Have With Auditees and SBA Officials During an Audit? | 16 |
| 4. What am I Supposed to Do if an Audit Includes My Area(s) of Responsibility?         | 17 |
| 5. How Do I Ensure that the Auditing Division has Access to All Necessary Information? | 17 |

#### Appendices

- |  |    |
|--|----|
| 1. Index to Forms and Reports.   | 19 |
| 2. SBA Form 1824,  Recommendation Action Sheet.  | 21 |

## Chapter 1

### General Overview of the Auditing Division

#### 1. What Does the Auditing Division Do?

The Auditing Division of the Office of Inspector General (OIG) methodically examines and reviews internal SBA operations; individuals, companies and other entities participating in SBA programs; and companies and other entities contracting with, or receiving grants from, the SBA. The Auditing Division has the authority to audit any SBA program, functional activity, program participant, grantee, or contractor doing business with SBA. These audits promote the economical, efficient, and effective operation of SBA programs. Audits give SBA managers an objective assessment of how well their offices are carrying out their programs and supporting operations.

#### 2. Under What Authority Does the Auditing Division Conduct Audits?

- a. Inspector General Act of 1978, Public Law 95-452, as amended, 5 U.S.C. App. 3.
- b. Government Auditing Standards issued by the Comptroller General of the United States (Yellow Book).

#### 3. Who is Involved in the Audit Process and What are Their Responsibilities?

- a. Inspector General and Deputy Inspector General - They provide policy direction for all audits of SBA programs and operations.
- b. Assistant Inspector General for Auditing - He/she provides general management direction for audits, approves audit programs, and issues audit reports.
- c. Deputy Assistant Inspector General for Auditing, Operational Support Services - He/she provides technical support to auditors, reviews audit programs and draft reports, confirms the accuracy of audit reports, and monitors management decisions on audit report recommendations.
- d. Director for Headquarters Operations and Director for Field Operations - They manage and provide program planning and general direction for the audits conducted by their staffs.
- e. Audit Managers - They plan, schedule, review the detailed audit work, and supervise the Division's auditors.

- f. Auditors - They conduct audits by following an audit program that has been approved by the Assistant Inspector General for Auditing.
- g. Contractors and Other Government Auditors - The OIG may use public accounting firms or other Government auditors, e.g., the Defense Contract Audit Agency, to perform any audits for which the OIG is responsible.

## Chapter 2

### What Kinds of Audits Does the Auditing Division Conduct?

#### 1. What are Internal Audits?

These are audits of SBA functions and operations. The Auditing Division conducts the following kinds of internal audits.

- a. Financial Statements Audits - Annually, the auditors determine whether SBA's financial statements present fairly its financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
- b. Financial-Related Audits - The auditors may review segments of financial statements, financial information, or financial systems to determine whether SBA:
  - (1) Presents financial information accurately and properly;
  - (2) Follows financial compliance requirements;
  - (3) Maintains an adequate internal control structure; and
  - (4) Safeguards assets.
- c. Performance Audits - There are two basic types of performance audits.
  - (1) Economy and Efficiency Audit - The auditors determine whether the SBA auditee acquires, protects, and uses its resources in the most economical and efficient way and follows applicable laws and regulations.
  - (2) Program Audit - The auditors evaluate whether the SBA auditee achieved the desired program results and followed applicable laws and regulations.

A single audit may encompass one or more of the above kinds of audit work.

#### 2. What are External Audits of Contracts, Grants, or Cooperative Agreements?

These are financial related audits of participants in SBA programs, contractors doing business with SBA, and grant recipients. The Auditing Division conducts the following kinds of audits on contracts, grants, and cooperative agreements.

- a. Preaward Audits - The auditors conduct these audits prior to SBA



awarding contracts, grants, or cooperative agreements. The auditors determine whether:

- (1) The recipient's accounting system is adequate;
- (2) The recipient's proposed costs are reasonable; and
- (3) The recipient has the funds to complete the award.

- b. Incurring Costs Audits - The auditors test the recipient's system to determine recording and controlling costs, and whether billed costs are properly documented and can be billed to the award. The Auditing Division conducts or contracts out the following four types of incurred costs audits.
  - (1) Interim Audits - The auditors conduct this audit while the performance of work is on-going. The auditors determine whether billed costs are properly documented and can be billed to the award.
  - (2) Close-Out Audits - The auditors conduct this audit after completion of the performance of work, but prior to SBA paying the recipient the final bill. The auditors determine whether the billed costs are reasonable, properly documented, and billable to the award.
  - (3) Indirect Cost Rates Audits - The auditors determine whether the indirect cost rate is reasonable and accurate.
  - (4) Claims Audits - The auditors conduct these audits when the Government cancels an award prior to its completion or delays the award in some way. The auditors assess costs incurred as a basis for an equitable adjustment that the recipient should receive.
- c. Defective Pricing Audits - The auditors determine whether the recipient provided less than complete and accurate pricing data to the Government during price negotiation.
- d. Performance Audits - The auditors evaluate whether the recipient achieves the desired program results; operates in an effective and economical manner; and/or follows applicable laws, regulations, and requirements.

A single audit may encompass one or more of the above kinds of audit work.

**3. What are External Audits of Individuals or Entities Participating in an SBA Program?**

These are audits to determine whether SBA program participants:

- a. Present financial information accurately and properly;
- b. Follow applicable laws, regulations and requirements;
- c. Maintain an adequate internal control structure;
- d. Safeguard assets;
- e. Achieve the desired program results; and/or
- f. Operate in an effective and economical manner.



## Chapter 3

### What is Involved in an Audit?

#### 1. What are the Stages of an Audit?

- a. Audit Selection - In general, the Auditing Division selects which audits it will conduct prior to the year they are conducted. Each year, the Auditing Division issues a Notice requesting its staff and SBA program managers to submit audit suggestions for the following fiscal year. Division management officials consider these suggestions in developing the annual audit plan for the Auditing Division. In addition, the need for some audits may arise during the course of the year as a result of an allegation of wrongdoing; a request from a program manager; a request from the Inspector General, SBA Administrator, or other senior policy officials; or a contractor's completion of a contract with SBA.
- b. Survey - The auditors take a preliminary look at the program, operation or participant. They gather and evaluate information to determine the most significant problem areas and avoid unproductive work during the audit's review phase. Auditors may not need to conduct surveys on standardized audits with pre-approved audit programs, e.g., an audit of a small business development center.
- c. Developing the Audit Program - Upon completing the survey, the auditors determine which area(s) of the program or operations to review and develop the audit program. The audit program determines:
  - (1) The specific questions (objectives) the auditors will answer during the audit;
  - (2) The specific audit steps the auditors will complete to answer these questions; and
  - (3) The activities and time periods the audit will cover.

The Assistant Inspector General for Auditing approves each audit program prior to initiation of the audit; audit programs are generally not available to the public.
- d. Review Phase - The auditors collect, analyze, interpret, and document such information, as necessary, to complete the audit objectives and the specific audit steps included in the audit program and to support the audit results.
- e. Report Writing - The auditors write a draft report containing audit findings and the recommendations for correcting the deficiencies noted in these findings.

- f. Incorporation of Management Comments - Prior to issuance of the report, the Auditing Division provides a draft version of the report to the auditee and responsible SBA management officials for review and comment. The auditors analyze any comments, modifying the report as necessary. The comments are generally included, verbatim, as appendices to the report. In the body of the report, the auditors:
- (1) Summarize the comments;
  - (2) Discuss why the Auditing Division agrees or disagrees with any comments questioning the draft report; and
  - (3) Discuss what changes, if any, have been made to the report.
- g. Report Issuance - The Assistant Inspector General for Auditing signs and distributes the report (see paragraph 3-3).
- h. Management Decision and Action After Report Issuance - The SBA program manager to whom the report is addressed is responsible for responding to the audit report's recommendations and informing the Auditing Division of his/her proposed decision. The management decision is recorded on SBA Form 1824, Recommendation Action Sheet. See SOP 20 35, Audit Followup System. The Auditing Division can either concur or non-concur with the management decision.
- (1) Concur - Both parties indicate concurrence by signing the Recommendation Action Sheet. The SBA's Office of the Chief Financial Officer tracks the implementation of the management decision until final action is completed.
  - (2) Non-concur - The Auditing Division works with the responsible program manager to develop a management decision acceptable to both parties. If agreement cannot be reached, the Auditing Division has the option of escalating the decision to progressively higher management levels until resolution is reached. The Deputy Administrator is the final management level, and his/her decision is final. The Inspector General may report any disagreement in the OIG's Semiannual Report to the Congress.

The Auditing Division tracks the status of management decisions until both parties concur, and reports on this status in the OIG's Semiannual Report to the Congress. The Agency reports on the status of final actions in its Semiannual Management Report to the Congress.

## 2. What is an Audit Finding?

In audit reports, the Auditing Division presents the results of its audits in the form of findings. Each finding contains the following elements:

- a. Condition - What the auditors found.
- b. Criteria - What the condition should actually be. Ordinarily, these are specified in laws, regulations, or procedures.
- c. Cause - Why the condition is not the same as the criteria, i.e., why the problem occurred or exists.
- d. Effect - The adverse impact that occurs when the condition is not the same as the criteria.
- e. Recommendation - A way to address the cause so that the condition and the criteria are the same.

If implementation of a recommendation will result in a monetary savings, the finding will include the actual amount to be saved, and how the auditors derived this amount.

## 3. Who Receives Copies of the Audit Report?

- a. Initial Distribution Outside the Office of Inspector General.
  - (1) The Administrator and Deputy Administrator receive a copy of the report if the Inspector General determines that the findings are significant.
  - (2) The SBA office(s) that is the subject of the audit or, in the case of external audits, the SBA office(s) having cognizance over the audit subject.
  - (3) The Office of General Counsel.
  - (4) The Associate Deputy Administrator for Management and Administration.
  - (5) The Chief Financial Officer.
  - (6) The U.S. General Accounting Office.
  - (7) Congressional committee that requested the audit to be performed.
  - (8) Any other Government office the Auditing Division thinks has a need to receive the report.

- b. Freedom of Information Act (FOIA) Requests - Anyone may request a report under the provisions of the FOIA. In responding to the FOIA request, the OIG will determine what information is sensitive (e.g., information of a competitive business nature or information which, if released, would violate an individual's privacy), and delete it from the copy being released.
- c. Other Requests - The OIG may provide audit reports in response to requests from the following:
  - (1) Congressional committees;
  - (2) Law enforcement entities, including other Offices of Inspector General; and/or
  - (3) Government offices with a need to know the information contained in the report.
- d. Release of Audit Reports by Report Recipients - Audit report recipients may not release audit reports or disclose information contained in these reports to any person or entity outside of SBA without the express permission of the OIG, with one exception. In the case of external audits, the cognizant SBA office should provide the auditee with a copy of the audit report. This usually is done in conjunction with a letter from the program office that states its intended actions, e.g., directing the participant to repay unallowable costs or to adhere to an SBA requirement. The Auditing Division does not ordinarily provide non-SBA auditees with a copy of the final audit report.

## Chapter 4

### What is My Involvement in the Audit Process?

#### 1. When Should I Request an Audit?

- a. On contracts, grants, and cooperative agreements you administer, you may request the following audits when needed:

- (1) Pre-award;
- (2) Incurred costs; and
- (3) Defective pricing.

Even if you foresee that an outside entity, such as the Defense Contract Audit Agency, may conduct the audit, you must request the Auditing Division to conduct all audits. The Auditing Division has the responsibility for determining whether it or an outside agency will conduct the audit, and the Division makes all arrangements to have it conducted.

- b. On SBA internal operations, you may request an audit in response to the OIG's annual request for audit topics or at any other time if you believe there is a need for an independent review of one or more of your area's operations to improve its efficiency, economy, or effectiveness.
- c. On program participants, you may request an audit at any time if you believe that a program participant is not complying with financial reporting and/or regulatory requirements.
- d. To obtain auditing advice on any question, you may request audit assistance by calling (202) 205-7203.

#### 2. How Do I Request an Audit?

- a. To request an audit, submit a memorandum to the Assistant Inspector General for Auditing with, at a minimum, the following information:
  - (1) What you are requesting, e.g., a pre-award audit;
  - (2) Why you are requesting the audit;



- (3) The name and address of the auditee if it is an external audit;
  - (4) Any additional information you believe will be pertinent to the Auditing Division in determining whether the audit should be conducted;
  - (5) Appropriate supporting documentation; and
  - (6) The name and phone number of an SBA contact official for the request.
- b. When requesting an audit of a contract, grant, or cooperative agreement (award), you should also include the following with your request:
- (1) Copy of the award agreement or request for proposal;
  - (2) Award number;
  - (3) Award type;
  - (4) Award amount;
  - (5) Performance period;
  - (6) Name of outside procuring activity, if applicable; and
  - (7) Legal sufficiency review obtained prior to award, if applicable.

### **3. What Contact Does the Auditor Have With Auditees and SBA Officials During an Audit?**

- a. Entrance Conference - Before starting an audit, the auditors discuss the audit's purpose and scope with the responsible SBA officials. On external audits, the auditors may either have entrance conferences with the responsible SBA officials or notify them by memorandum, but, in all cases, the auditors will hold an entrance conference with an official of the company or other entity being audited.
- b. Questions and Requests for Data During the Survey and Review Phases - During these two phases, auditors obtain the following types of evidence (information).
- (1) Physical Evidence - The auditors observe people, property, and/or events.
  - (2) Documentary Evidence - The auditors obtain &created information&, such as letters, contracts, accounting records, invoices, and management performance information.

- (3) Testimonial Evidence - The auditee or others answer the auditor's questions.
- (4) Analytical Evidence - The auditor computes, compares, and analyzes using data obtained in one or more of the above three methods.

To obtain this information, auditors interact with auditees by asking questions, requesting information, and discussing issues that arise. By authority of the Inspector General Act, the OIG has access to all SBA documents and all documents that participants in SBA programs are required to make available to SBA.

- c. Exit Conference - The Auditing Division holds exit conferences with the auditee and the responsible SBA management official after the auditors gather the required information and analyze this data. At these conferences, the auditors discuss preliminary audit findings and recommendations with the responsible auditee management officials. On external audits, the auditors verify facts gathered and may discuss preliminary audit findings and potential recommendations with the auditee. Findings and recommendations discussed at exit conferences are preliminary and may change, subject to further audit analysis.
- d. Comments on Draft Report - The Auditing Division provides the auditee(s) and the responsible SBA official(s) a copy of the draft audit report, requesting formal written comments on its accuracy. If the audit is external, the Auditing Division may delete the recommendations from the draft report it provides to the auditee.

#### **4. What am I Supposed to Do if an Audit Includes My Area(s) of Responsibility?**

Cooperate fully with the auditors. By authority of the Inspector General Act, the OIG has access to all SBA documents and all documents that participants in SBA programs are required to make available to SBA. If any participant withholds records or documents needed by the auditors, the OIG may issue a subpoena for those records.

#### **5. How Do I Ensure that the Auditing Division has Access to All Necessary Information?**

You should make non-SBA participants in or recipients of SBA programs and awards aware of their responsibility to cooperate with the Auditing Division. Where appropriate, include audit access clauses in agreements with these recipients. This clause should state that a recipient's failure or refusal to cooperate in providing access to its books, records, or other relevant documents may be grounds for SBA terminating the agreement.



**Appendix 1****INDEX TO FORMS AND REPORTS**Form

1. SBA Form 1824 (3-92), Recommendation Action Sheet

Paragraph

3-1h

Report

1. Draft Audit Report
2. Audit Report
3. Office of Inspector General Semiannual Report to the Congress

Paragraph

3-1f

3-1g

3-1h



Appendix 2  
(paragraph 3-1h)  
**RECOMMENDATION ACTION SHEET**  
SBA AUDIT FOLLOWUP SYSTEM

**AUDITEE****AUDIT TITLE****GRANT/CONTRACT/LICENSE #:****QUESTIONED COST: \$****UNSUPPORTED AMOUNT: (\$ )****FUNDS FOR BETTER USE: \$****RECOMMENDATION:****REPORT NUMBER:****DATE ISSUED:**

**TYPE:** Internal ☐ External ☐

| RECOMMENDATION<br>(SBA Form 1779)      | Action<br>Office                      | Program<br>Code               | Mgt.<br>Response<br>Due Date | Final<br>Decision<br>Due Date | Amount                  | Code<br><br>1      2 |  |
|--|---------------------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------|----------------------|--|
| RECOMMENDATION NO:                     |                                       | Amount unsupported in Q code: |                              |                               |                         |                      |  |
|  |                                       |                               |                              |                               |                         |                      |  |
| MANAGEMENT DECISION<br>(SBA Form 1781) | Management<br>Concurrence<br>(Yes/No) | Target Date<br>for FA         | OIG Assessment               |                               | Amount                  | Code<br><br>1      2 |  |
|  |                                       |                               | Agreed ?                     | Referred ?                    |                         |                      |  |
| Amount unsupported in QD code:         |                                       |                               |                              |                               |                         |                      |  |
| (Attach extra sheet if necessary.)     |                                       |                               |                              |                               |                         |                      |  |
| Originating Official Signature:        |                                       |                               |                              |                               |                         | Date:                |  |
| Approving Official Signature:          |                                       |                               |                              |                               |                         | Date:                |  |
| OIG Signature:                         |                                       |                               |                              |                               |                         | Date:                |  |
| FINAL ACTION<br>(SBA Form 1780)        | Date FA<br>Completed                  | Non-<br>Monetary<br>Results ? | Disallowed Costs             |                               | Funds Put to Better Use |                      |  |
|  |                                       |                               | Recoveries<br>Code           | Write-Offs                    | Implemented             | Not Implemented      |  |
| Amount unsupported in QD code:         |                                       |                               |                              |                               |                         |                      |  |
| (Attach extra sheet if necessary.)     |                                       |                               |                              |                               |                         |                      |  |
| Originating Official Signature:        |                                       |                               |                              |                               |                         | Date:                |  |
| Approving Official Signature:          |                                       |                               |                              |                               |                         | Date:                |  |

SBA Form 1824 (3-92)

(See SOP 90-15-1 for instructions on the three forms; see attached for lists of codes.)

Effective Date:

Page 21

**Appendix 2**  
**(paragraph 3-1h)**  
**(Reverse of Recommendation Action Sheet)**

**INSTRUCTIONS FOR RECOMMENDATION ACTION SHEET (RAS)**

Except for codes, all instructions given in SOP 90-15-1 apply to the appropriate portion of this form as shown below:

| <u>RAS Section</u>  | <u>SOP Instructions</u>                 |
|---------------------|---|
| Recommendation      | Audit Data Sheet, Form 1779             |
| Management Decision | Management Decision Document, Form 1781 |
| Final Action        | Final Action Document, Form 1780        |

Codes given in the SOP are supplemented to show a location code for monetary recommendations to show whether the monetary effect is at the SBA level or the program participant level. The SOP codes are "Code 1" on the form. The supplementary location codes are "Code 2" of the form. The following table shows codes for all three sections:

| <u>Section</u>                           | <u>Code</u> |
|--|-------------|
| <u>Code 1</u>                            |             |
| Recommendation                           |             |
| Questioned Cost                          | Q           |
| Funds for Better Use                     | B           |
| Non-Monetary                             | N           |
| Management Decision                      |             |
| Question Disallowed                      | QD          |
| Funds for Better Use Agreed To           | BA          |
| Non-Monetary                             | N           |
| No Action                                | NA          |
| Final Action (Disallowed Costs Recovery) |             |
| Collection Effort                        | C           |
| Property                                 | P           |
| Other                                    | O           |

Code 2

Questioned costs or funds for better use in recommendation or management decision:

|                           |   |
|---------------------------|---|
| SBA Level                 | S |
| Program Participant Level | P |

Effective Date:

Page 22